

INDUSTRIAL BUYING BEHAVIOUR IN HONG KONG

by

LEUNG YIU-KWAN

梁耀坤

SIU KWOK-KEUNG, WILLIAM

邵國強

RESEARCH REPORT

Presented to

The Graduate School

In Partial Fulfilment

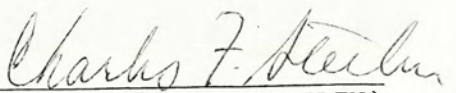
of the Requirements for the Degree of

MASTER OF BUSINESS ADMINISTRATION

THREE-YEAR MBA PROGRAMME

THE CHINESE UNIVERSITY OF HONG KONG

May 1986


(Dr. Charles F. STEILEN)

Advisor

(thesis)
HD
39.5
L52

467634



ABSTRACT

Considering the definition of industrial marketing as aiming at selling to manufacturers, government and utilities, wholesalers and retailers, etc., the scope of industrial marketing is very broad and important. On the contrary, the practice of industrial marketing is rather non-professional. Most people agree that personal selling is the major promoting tool but it is also the weakest point of most companies.

The objective of this study about the industrial buying behavior is to point out the problem areas existing in the field of industrial selling and attempt to suggest improvements.

Interviews conducted with salespeople and records of typical sales presentations uncovered many shortcomings such as lacking of preparation before sales calls; talking to wrong person in the decision making unit; poor knowledge about market situations and competition; bad presentation with too much emphasis on price; quick withdrawal on the slightest resistance...etc.

Our interviews with the buyers revealed the other side of the picture indicating the complexity of buying decision and the involvement of more than one decision maker. The types of products/services, nature of purchase and the organization of the customer are also directly influencing the decision process. Other

external factors such as economical, legal, technological and cultural are also background influencers. This requires preparation of sales calls, plotting a strategy and step-by-step reaching the individual decision makers until the sales is closed.

Next we revealed the different objectives and concerns of different decision makers and personal factors involved during sales calls. And that is requiring the communication skills of the salespeople such as probing, listening, ability of analysing and catching opportunities. This also points to the basic concept of selling as solving buying problems instead of offering a product/service. But the salespeople are doing just the opposite as seen in the cases recorded.

On the corporate level, we recommended some areas which are to be reconsidered. These are mainly centred around sales management such as recruiting the salesforce, training, organization, compensation, supervision and evaluation.

We also stressed the importance of the corporate culture on individual salesman and of a marketing and customer oriented company.

However, we have not missed out the theories. We presented two comprehensive models from the pioneering work of Webster/Wind and Sheth. They are systematic presentations of the complex buying situation and are useful tools to salespeople in understanding the customers' buying behavior.

It is the sincere hope of the authors that this study arouses the concern to improve the standard and quality of industrial selling. But this is only the first step towards the drive for more professional industrial marketing.

TABLE OF CONTENTS

ABSTRACT

TABLE OF CONTENTS

LIST OF ILLUSTRATIONS

PREFACE

Chapter

I. INTRODUCTION	1
Definition	
Reasons of Study	
Problem Defined	
Summary	
II. THEORIES	7
Webster and Wind Model	
Sheth's Model	
III. METHODOLOGY	13
IV. RESULTS OF INTERVIEWS WITH SALESPEOPLE	15
Prospecting	
Preapproach	
Approach	
Sales Presentation	
Buying Resistance	
Closing	
After Sales Support	
Background	
V. CASES OF TYPICAL INDUSTRIAL SELLING	23
VI. RESULTS OF INTERVIEWS WITH BUYERS	42
Types of Products and Services	
Types of Purchase	
Size and Organization of the company	
Decision Making Process	
Buyer's Concerns and Objectives	
Comments on Sales Technique and	
Dissatisfactions	

VII. ANALYSIS AND CONCLUSIONS	50
-------------------------------	----

Buyer Behaviour
Buying Model

VIII. RECOMMENDATIONS AND DISCUSSIONS	61
---------------------------------------	----

Recommendations on Salespeople Level
Recommendations on Corporate Level

BIBLIOGRAPHY

LIST OF ILLUSTRATIONS

2.1	Webster and Wind model	8
2.2	Sheth model	11
6.1	Typical buying centre for capital equipments	44
6.2	Typical steps in a purchase	45
7.1	Interests of different decision makers	55
8.1	The roles of decision making unit in the product planning process	64
8.2	Sales promotion	65

PREFACE

The purpose of business is to create satisfied customers, and in industrial product selling businesses the customers are organisations rather than individuals. Some large organisations are complex, and so are the processes that lead to buying decisions. We believe that understanding the buying decision processes is essential to developing the marketing programs of companies that sell to organizations, or to "industrial customers."

It was noted that considerable study has been made of the buying behaviour of the individual in his role as a consumer, but comparatively little work has been done on the buying behaviour of the individual in his role as a member of an organization. Professor Webster and Wind and Dr. Sheth have made contributions in developing general models for the study of organizational buying behaviour. Their models of organizational buying behaviour are syntheses of established theories of organizational behaviour.

The value of this study lies in the fact that little work has been done in studying the industrial marketing situation in Hong Kong. Although our work admittedly leaves many questions unanswered, the industrial marketers will find the findings of our study helpful in better understanding their customers and the things that influence their buying behaviour.

A number of people assisted in the success of this study. We would like to thank firstly our supervisor Dr. Charles F. STEILEN in the Chinese University of Hong Kong, MBA division for his advice and guidance throughout the project.

We are indebted to our seniors, Mr. E. K. GRIFFITH, and Mr. M. MATTHEWS of the Cable & Wireless (HK) Ltd. and the late Mr. Douglas G. JORDAN of Philips Hong Kong Ltd. for their invaluable suggestions, inspiration and encouragement.

To all the people participated in the interviews our sincere thanks for their co-operation, contribution and patience.

CHAPTER I

INTRODUCTION

Definition

Industrial marketing is the marketing of goods and services to industrial and institutional customers. These include manufacturing firms, governments, public utilities, educational institutions, hospitals, wholesalers and retailers and other formal organizations. The distinguishing feature of industrial and institutional customers is that they use the goods and services in their own production of goods and services.

Industrial markets are characterized by derived demand, a concept that highlights the nature of buyer-seller interdependence in industrial markets and creates the need for careful analysis of the customer's customers.

Four sources of uniqueness in industrial marketing have been defined:

- (a) Marketing's greater dependence upon other business functions for its effectiveness;
- (b) Product complexity extending to virtually all economic, technical, and personal relationships between industrial buyer and seller;

- (c) A high degree of buyer-seller interdependence extending well beyond the transaction itself; and,
- (d) The complexity of the organizational buying process.

Reasons of Study

The marketing of industrial products is a very important part in the area of marketing. However, the development of real industrial marketing in Hong Kong is only in an infant stage. Most firms selling industrial products have a team of sales people (although they are sometimes called "Marketing Department").

It is seen that the Marketing Department devoted almost all the effort to personal selling. Other functions like market intelligence collection, product development, promotion and public relations...etc, are rare or only done in a rather non-systematic manner.

The salespeople usually have technical or engineering background. When we talk about selling, it is widely believed that a suitable salesperson must be technical in order to introduce the product in a professional manner. But how true is that? On one hand, the salesperson with technical education is usually not a very good marketing man because his train-up in the technical field. On the other hand, since he is not working hands-on on the technical aspects of the product, his knowledge is in general only fair. So he does not usually introduce his products too technically and very often he is only a "message taker" and directs all these questions to the more competent engineers in the firm.

When we look at the other side of the buyer-seller relationship, the buying function in a customer's firm has been developing very professionally. We see that they evolve from a clerical position to a key function and purchasers are getting higher and higher in the

organisation chart. In most manufacturing companies, the purchasing job is an important function integrated into the Materials Management Department which is responsible for material sourcing, procurement and planning. Meanwhile, many of them have also acquired technical knowledge to enable them to evaluate a supplier from the quality and technical competence point of view. In other fields, the salesperson very often encounter professional management level even up to CEOs.

The Problem Defined

The real "industrial marketers" are dealing in his daily work with such kind of situation mentioned above. In doing so, he anticipated some problem areas which the salesmen can improve. Most problems can be associated with a lack of understanding of the buying process and the buying behaviour. But in practice, when a salesperson is asked about his customer he will proudly and confidently say that he knows his customers from inside to outside.

This is a typical example of an interview dialogue with the salesperson.

Q: How long have you been calling this customer?

A: Three years.

Q: Whom do you contact?

A: The purchaser.

Q: What are the subjects discussed during the visits besides business?

A: Subjects about daily life such as horse betting.

Q: Why do you think the customer wants to do business with you?

A: Because of our good friendship. Sometimes I have to bring the goods to them in urgent cases.

Q: How do you improve the profitability of this account?

A: I have never thought about this question.

Theoretically, industrial selling has the following steps:

- selecting the customer
- plotting the strategy
- input to customer
- approaching the customer
- presentation
- follow up, evaluation and after sales service

Selecting The Customer

Most salespeople are only interested in discussion which results in orders within a short period of time. Therefore he seldom care about long term projects, market share and technical assistance. And this also lead to the over emphasis on price and delivery as will be discussed later.

When he has to introduce a new product to the market, he will first look at his existing customer list. Very seldom will he look into the whole market first and the marketing plan before he choose which customer he should contact.

Plotting The Strategy

It is amazing how little information a salesperson has about the competitors and he is not eager to find that out. When he loses an order to a competitor, his excuse is often that "the competitor has a lower price". Equally important is the work of strategy plotting before a customer visit. When he goes to visit the customer, he will just pick up his briefcase and go without knowing what exactly the customer needs are. No wonder he can only talk about part numbers and price.

Input To Customer

It is widely believed that the personal selling is the only tool for promotion. Most industrial marketers overlook the effect of advertising, public relations, etc. However, due to limitation of resources, in this study, it was not fully surveyed. It is the belief of the authors that well-organized advertising and other promotion efforts do play an important role in input to customers. This will be an interesting subject for future studying.

Approaching The Customer

One of the reasons why we feel that the salespeople do not know his customer is that they seem not to be able to find the right person to talk to. For most products (especially straight rebuy), definitely the purchaser is the correct contact. But for new products, projects or services, most salesmen will not know how to approach, to what level they should make the first contact and what type of people they should call to the presentation...etc.

Content of Presentation

Since no initial plan was made before the presentation, a salesperson can just discuss about the things he knows, i.e. price and delivery. In turn, the buyer will take this golden opportunity to finalize the price before asking for quality, delivery...etc and thereby gaining a lot of advantages.

When it comes to "design-in", "technical advice" which the salesperson is supposed to handle, he will feel that it is too difficult and say "Let me take these questions down and ask the engineers in our company to sort it out for you."

Follow-up, Evaluation and After Sales Service

In this aspect, a good salesperson will always keep following up his business and has his customers' needs satisfied at any stage. However, very often, salesman are too easily giving up when the buyer shows a slight complaint about price or special request. Also when the customer has already given the order to a competitor, then it is the signal for termination of relationship.

In most companies, salespeople seldom keep records of sales calls, analysing why it succeeded or failed for future reference. We also looked into what the dissatisfactions of the buyers were and how from their points of view the salespeople could improve themselves.

Summary

Thus we have seen in this chapter that industrial marketing in Hong Kong is very much behind the developed countries. When compared with consumer marketing, it is decades behind. We saw a lot of areas for improvement. For example, marketing intelligence, competitor information, personal selling, promotion and public relation...etc. The improvement should be in all aspect of marketing, but the most urgent thing is in the area of personal selling. This is because firstly sales force is already an important function in the organisation. Secondly, the effect can readily be seen. And thirdly, the improvement would have direct impact on the company's turnover and profit. So we have picked up this subject in this research.

CHAPTER II

THEORIES

In the previous chapter we have discussed the status quo of industrial marketing and we came to the conclusion that it is performed in a non-professional manner. While consumer marketing firms have long studied the motives, habits and characteristics of individual consumer market segments in an effort to predict and explain certain forms of consumer behaviour, similar developments have not been as readily adopted by industrial marketers.

Before carrying out our research we would like first to look at some academic studies in the field of organisational buying behavior. The two most famous models were results of the work by Federick E. Webster, Jr and Yoram Wind (1972) and by Jagdish N. Sheth (1973).

Webster and Wind Model

The Webster and Wind model is shown in the next page. The basis of the model, as described by the researchers, is that organizational buying is a decision-making process carried out by individuals, in interaction with other people, in the context of a formal organization. The organization, in turn, is influenced by a variety of forces in the environment. Thus, the four classes of variables determining organization buying behaviour are individual, social, organizational, and environmental. Within each class, there are two broad categories of variables: those directly related to the buying

problem, called task variables; and those that extend beyond the buying problem, called non-task variables.

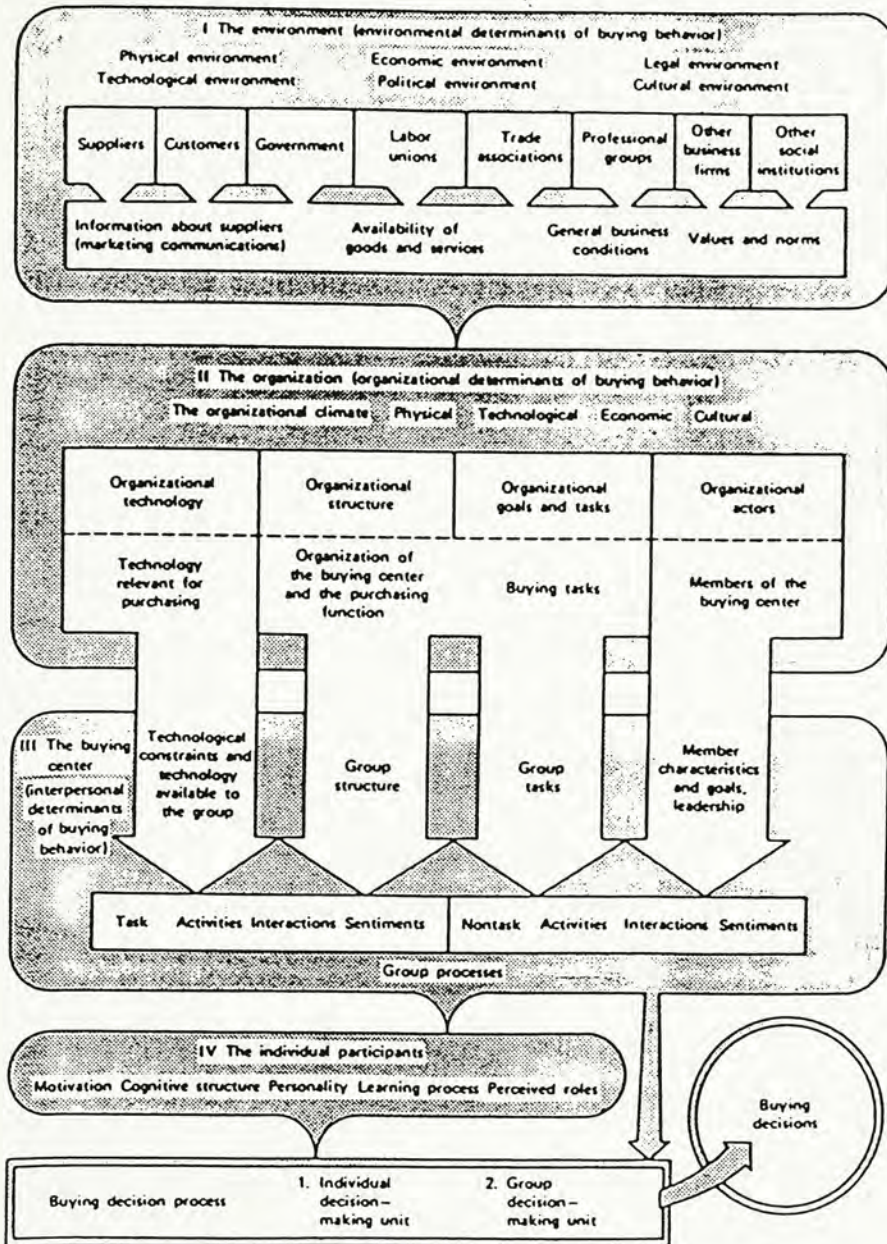


Fig. 2.1 A general model of organizational buying behavior. [Source: F. E. Webster, Jr. and Y. Wind, "A General Model of Organizational Buying Behavior," *Journal of Marketing*, 36, 2 (April, 1972), pp. 12-19.] Reproduced with permission of the American Marketing Association.

Organizational buying behaviour is a complex process and involves many persons, multiple goals, and potentially conflicting decision criteria. It often takes place over an extended period of time, requires information from many sources, and encompasses many interorganizational relationships.

The organization buying is form of problem-solving, and a buying situation is created when someone in the organization perceives a problem.

Organizational buying behaviour includes all activities of organizational members as they define a buying situation, and identify, evaluate and choose among alternative brands and suppliers. A buying centre includes all members of the organization who are involved in that process. The roles involved are those of user, influencer, decider, buyer and gate-keeper.

Members of the buying centre are motivated by a complex interaction of individual and organizational goals. Their relationships with one another involve all the complexities of interpersonal interactions. The formal subsystems of tasks, structure (communication, authority, status, rewards and work flow), technology, and people. Finally, the entire organizational is embedded in a set of environmental influences including economic, technological, physical, political, legal and cultural forces.

Sheth's Model

In his organizational buying behaviour model, shown on the next page, Sheth identify a distinct aspects:

- the psychological world of the individuals involved,
- the joint decision among individuals,
- inevitable conflict among decision makers and its resolution.

The psychological world of the individual involved.

In a typical buying situation, one finds more than one member who are continuously involved in different phases of the buying process, e.g. purchasing, quality control and manufacturing departments.

Basing on researches in consumer and social psychology, several different aspects of the psychology of the decision makers are included in the model, viz

- (a) the background of the individuals,
- (b) information sources,
- (c) active search,
- (d) perceptual distortion,
- (e) satisfaction with past purchases.

Determinants of Joint vs Autonomous Decisions

Product-specific factors - One kind of product specific factor is the so-called perceived risk. The greater the perceived risk in a specific buying decision, the more likely it is that the purchase will be decided jointly by all parties concerned. Other product-specific factors include: type of purchase, and time pressure.

Company-specific factors - such as company orientation, company size and degree of centralization.

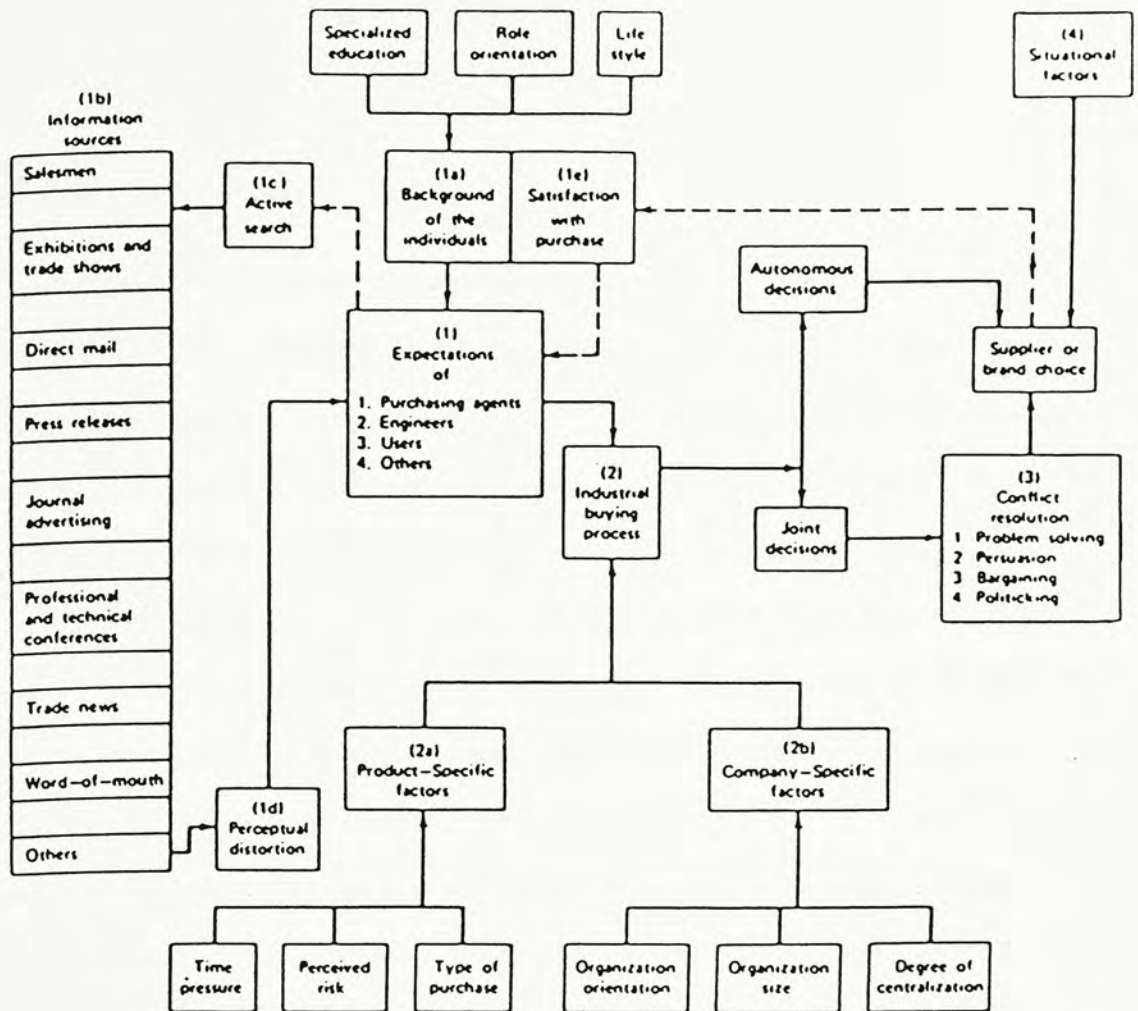


Fig. 2.2 The Sheth model of industrial buyer behavior. [Source: Jagdish N. Sheth, "A Model of Industrial Buyer Behavior," *Journal of Marketing*, 37, 4 (October, 1973), 50-56, at p. 51.] Reproduced with permission of the American Marketing Association.

Process of Joint Decision Making

The major thrust of the model is to investigate the process of joint decision making. This includes initiation of the decision to buy, gathering of information, evaluating alternative suppliers, and resolving conflict among the parties who must jointly decide.

Summary

The models are rather comprehensive and tried to exhaust all the factors affecting a buying decision. As applied to Hong Kong, there should be adaptation and modification because of the difference in environment, especially legal and unions, and the management style of the companies. Also due to difference in the nature of business, the relative weights of the factors differs. However, these two models can be looked upon as general models and all these factors should not be missed in the consideration of industrial marketing problems.

The industrial salesmen should familiarize himself with the two models and use them as checklist for his daily selling work. But unfortunately, in our interviews, not only have they not heard of these models but also they do not prepare their sales visits.

For this reason, we need a closer look at the real situation and focus on the problem areas. Chapter III shows the method we used in this study.

CHAPTER III

METHODOLOGY

Our study is not aimed at a theoretical approach in the direction of verifying the two models, or to establish any model of our own. Similarly, we are not prepared to do a lot of mathematical or statistical iterations about the facts and data. As on-job industrial marketers, we looked at the real-life situations in Hong Kong.

The main objective of this study is to point out the complexity and the basic features of industrial marketing to the salespeople and give some recommendation as to how to solve the existing problem in industrial selling.

To achieve this, it is necessary to first identify the problems. After that, the table is turned around so as to review the actual situation from the buyer's point of view. In doing so, it is aimed at floating up the real industrial buying behaviour.

Although the study would be rather confined to the actual field of work of the authors, it was recognized during the study that the problems themselves were not so restricted but might well be general problems in industrial marketing. Thus the analysis and recommendations would also be beneficial to other industrial products and services.

The methodology that we propose to use are outlined as follows:

- (a) A number of salespersons are interviewed on their perception about industrial selling. To get deeper into the problem to

gain more insight as to what the practical difficulties are, areas such as company organization, qualification, experience, training, career planning, interaction with customers, motivation factors, customer relationship, work load,... etc. are also investigated.

- (b) Several typical organizational buying situations are analysed to show the complexity in industrial marketing. These are real cases and not taken from textbooks or papers. Problem areas are identified in those situations. The study will also attempt to find out why industrial marketing firms are often characterized by a technical orientation stressing on engineering and production requirements rather than a customer orientation stressing on marketing requirements.
- (c) A number of buyers/customers are to be interviewed on areas such as purchasing objectives, buying decision process, vendor evaluation, procurement problems, buying criteria, appraisals of salesperson so as to get "the other side of the picture".
- (d) Analysis of data to find out where the problems are and why they occur. The analysis will also show the actual root problem behind all these symptoms.
- (e) Conclusions and recommendations and discussions.

We now set off with the first step - the results of interviewing salespeople.

CHAPTER IV

RESULTS OF INTERVIEWING SALESPEOPLE

The first step in this survey is to study the industrial buying behaviour and how the selling is done. For this reason, interviews were conducted with the thirteen industrial salespeople. Due to manpower limitation, six of them were from a large multi-national electronic component company, and seven of them from a franchised service company in Hong Kong.

The interviews were extensive and the whole process of industrial selling were covered even though some points were not directly related to the buying behaviour. These were aimed at getting the whole picture and trying to anticipate what difficulties were faced by the salespeople.

The interviews were also structured around the following topics:

- (a) Prospecting - how to locate prospect customers for promotion of a product/service (note 1)
- (b) Pre-approach - desk research, preparation work and preliminary study of the customers before sales calls.
- (c) Approach - plotting the strategy.
- (d) Sales presentation
- (e) Buying resistance.
- (f) Closing.
- (g) After sales support.
- (h) Background and others.

The last topic is designed to study the background of the industrial salespeople, e.g. their education and career built-up, company organization, training, etc. This is used in the recommendation of how to improve the sales techniques after the study of the buying behaviour.

Note 1: the term product is generally used, but the authors really mean industrial products and services.

Prospecting

In the case of new products, some companies have marketing departments whose job is to look first at the market situation, find market niches, position the product, narrow down to certain market sectors, and choose the customer, resulting in a marketing plan to be followed by the salespeople. But when it comes to the sales department, the industrial salespeople would only look into their existing customer base, basing on their experience, pick out the ones which they think will likely use the product (or already using a competitor's product), and off they went to visit the purchaser or engineer whom they claim to know very well. Perhaps, they follow the guidelines of the marketing plan, but most salespeople think that their experience is much more reliable as they are in the field and dealing with the customers everyday. Some companies do not have any marketing department. The job is just left to the sales manager and, because of his past experience in sales, he will not make any plan at all but starts with the customer list and sales calls.

Concerning increase the market of existing products, most salespeople would bring up the matter of price. If the price was lower, they could sell more. Price was to a salesperson almost the

only reason that his customers would buy from him. Even in franchised service the tariff of which are somehow controlled by the government, the same problem still exists due to competitive products/services.

Another factor is connection. Most salespeople would describe their jobs as building up a friendly relationship with the customers. The customer will buy the product from a particular salesperson because they are friends or classmates in colleges.

As for advertising, there was a lack of understanding and belief in industrial advertising. Some agreed to an advertising for company image. The only promotion tool was personal selling. There was a lack of imagination and planning for effective promotion.

Marketing researches and plans were seldomly carried out and used. There was also a misunderstanding about the function of a marketing group if that existed in a certain company. The salesperson's picture of a marketing group was just to study the markets and recommend something for the future to top management but had nothing to do with their selling function.

It is amazing how little was known about competition and very few salespeople cared to find out more about how and what the competitors were doing. This resulted in the frequent complaint about comparatively lower price of the competitors. But they failed to consider factors such as quality, delivery, technical assistance, payment terms, technology...etc which may be the weaknesses of the competitors.

Preapproach

When a salesman called a customer for the first time, he was usually referred to by some other people or the purchaser called the salesman first. Very seldom would a salesman choose a customer, do some research and facts finding, prepare a presentation and then go to see the customer.

When asked about the topics in the first discussion, they admitted that before the first meeting, the salesman usually had a rough idea about the customer, but only very rough. During the meeting he would try to dig out all information about the product, consumption per month, etc. Then he would go back to the office and prepared his best quotation with some samples for the next round of meeting. We will see later in the next chapter "Cases of Typical Industrial Selling" that in one case, the salesperson enclosed quotation as an input to the customer before he or the customer actually knew what to sell or buy.

Approach

Little to no preparation work was ever done by the industrial salespeople. The "well-experienced" salesmen called on their experience to solve all the problems on the spot. If there was anything which they could not make a decision, they would try to get around the corner. (That is why salespeople were always regarded as one with a big-mouth.) Sometimes no appointment was made for sales call to long-relation customers because the customer was expecting the salesman almost everyday.

When asked about the decision makers, most salespeople call the purchaser for commercial matters and the project engineer for technical discussions. But due to their limited technical knowledge,

calling the engineers would be a matter of courtesy or to note down the problems or to give samples. In the case of services, it was quite different due to its nature. Most sales calls were directed towards actual users of the service. Little reference were made to the complex buying behaviour, the concept of buying centres, or decision process in case of different products or the value of the product. Also most salespeople would avoid complex buying situations. The reason for this was that the performance of the salespeople was measured by the sales turnover or profit. If the customer was a difficult one, the salesman would just look for another easier one. Some salespeople are compensated on commission basis on a fixed percentage of the sales turnover. Then they will avoid complex buying situations and products which are difficult to sell.

Some salespeople brought up the argument of time management and that they had so much to do that there was no time to think about all those complex situations. Also they spent quite some time in clerical work such as expediting goods, writing papers, photocopying specifications sheets, and so on. In urgent cases, the salesman would deliver the goods personally to the customer.

As for the question of "why does the customer buy from you?" or "how is the buying situation created?" the answer is two-folded: price and relationship. Many complained about price wars when those tricky purchasers used to get the lowest possible price. But that is a fact which they have to face. So it is the survival of the fittest in price.

Sales presentation

The following chapter contains some cases of typical industrial selling which also show how the presentation was done. It can be noted that due to poor planning the salespeople embarrassed themselves before the customer by not able to meet the price. Or due to the lack of information about the customer, they were refused. In some situations, salespeople could not meet customer requirements due to the lack of selling strategy and tactics.

Buying resistance

The general attitude to sales resistance and difficult customers was to give up and find another one or wait for the next time. This is a very sharp contrast to some consumer product salespeople who will go after a customer and try all methods and combinations until he finally closes a sales. A few salespeople commented that assertiveness created bad image and poor customer relationships. Some salespeople said that large companies should not force the customers to buy their products.

Closing

Closing is in general the biggest problem for the new salespeople. But for most experienced salespeople, they were aware of what was the correct time to close the sale and found no trouble at all.

After sales support

Actually most of the sales calls were "after sales support" type. Less than 20% of the sales calls were for new customers or to sell new products. Difficulty to get support in areas such as logistic, accounting, or technical support from ones company were in general the

biggest problem of a salesman. And they spent quite a lot of time trying to solve these problems themselves.

Background

In general, industrial salespeople had an engineering background and most of them worked as engineers before the sales job. They were attracted to the job either because of the salary or they liked the challenge and atmosphere of the sales job.

As for academic qualification, most were polytechnic or university graduates. For utility companies, some were promoted or transferred from other departments. In that case, the qualifications were lower.

Very little training were provided. When asked about "training", all salespeople had in mind product or technical knowledge. There was in general a lack of awareness of the need for training in business and selling. Most people believed that selling technique was in-born and dependent on the character of individual person. There was also a lack of understanding and cooperation between the marketing functions and the sales functions.

For the company organization, there was always a dilemma whether the sales force should be organized per customer account or per product. If it was product oriented, it would be very difficult to get a complete picture of the customers' requirements and to work out a complete package deal before approaching the customer. If the organisation was account oriented, it would be equally difficult for one salesman to know all the products, especially in multi-product companies which might have hundreds of categories and over ten-thousand type of products.

As stated above, the general complaint from the salespeople was

the lack of resources of support which he could call upon freely from other departments such as technical support, logistics, accounting, etc...

CHAPTER V

CASES OF TYPICAL INDUSTRIAL SELLING

The cases below records some of the real practice of industrial selling. We have seen from the interview with salespeople the problems associated due to mis-conception. The cases should demonstrate how the sales are carried out. In the first case, the complexity of buying decision can be seen.

Case One

International telecommunication service in Hong Kong is provided by a franchised company. Leased circuit is a general term which basically means a dedicated communication link between two specified locations. The leased circuit can be used to transmit voice or data depending on the choice of compatible terminal equipment at both ends. At a fixed monthly rental which varies with the operating speed, a customer can have a continuous communication path with a distant party.

While public telecommunication services such as telex, telephony are charged on a per call, time-sensitive basis, the leased circuit users at two ends have to pay the cost of the corresponding half circuit to the local service provider. Therefore in general a customer should have built up sufficient traffic before they are justified to order a leased circuit. For a low volume user, it would be more economical to use the public switched services.

The customer is a regional sales headquarter of South East Asia. The products they sell are electronic components manufactured in South Korea, Taiwan and Singapore. The headquarter of the group is in the United States. Currently, the Hong Kong Office is using public switched service to exchange computer information with headquarter and other sales offices.

The Management Information Service Manager some time ago approached the salespeople for the requisition of six leased circuits. At first sight, this was a simple job and the leased circuits can be installed within a short time. However, during the discussion in the first customer visit, the salesman felt that there was a possibility to persuade the customer to use Hong Kong as a hub (central point) of the private communication network of the group. The buyer mentioned a project coordinator from the head office would visit Hong Kong to discuss the design of a telecommunication network for the group. It seemed that the buyer was a conservative and careful man because he did not want the salesman to meet the project coordinator. Moreover, he was reluctant to disclose detailed information about his requirements. It was agreed that a second meeting would be arranged when the head office staff left Hong Kong.

Prior to the second meeting, the salesman designed three system configurations in addition to the one requested by the customer. He used a step-by-step approach in which four phases of development were presented to the customer. He understood that the buyer might not jump to phase four in a short time but he needed to demonstrate his professionalism by putting forward short term and long term solutions.

On the second meeting, the salesman did convince the buyer that he had done a lot of homework. Moreover, the salesman managed to answer questions raised by the MIS Manager and the Senior System

Analyst who were present in the meeting. However, the buyer had hesitation to accept the proposals because he was informed that the head office was designing a private network using a completely different transmission technology.

The salesman pointed out that the new technology was not a long term solution to his best knowledge and that the Hong Kong Office might lose its control over the sales offices in the South East Asia. In addition, the phase four configuration was designed to satisfy corporate requirement at a cost-efficient manner. The buyer further commented that in the private network proposed by head office Hong Kong was not included as one of the hubs and that he had strong objection to the idea of paying more for the benefits of the group. Nevertheless, he promised to convey the message to the project coordinator for advice.

Comments

- (1) The case demonstrates the complexity of decision making process involving local offices, regional headquarter and home office.
- (2) The salesman did pretty well in the preparation work and was able to dramatise the presentation.
- (3) The salesman lacked the assertiveness in selling his proposals and failed to recommend the one which met the buyer's requirements.
- (4) The second meeting did not contain any closing or attempts to close a sale. The salesman should have formulated alternative strategies to complete the sale.
- (5) The salesman should approach the customer's headoffice as a next step.

This is a rather successful case in tackling complex buying

situations. to demonstrate how some salespeople fail to cope with such situation, we would now look at a different example. Now the buying situation is also complex but the salesman overlooked the complexity at the beginning of the sales.

Case Two

The Travel Agents Reservation Exchange (TAREX) system enables airlines to provide travel agents with controlled direct access to their flight booking central processors using a common input procedure. Airlines are the information provider of the system while the travel agents are the users.

In this case study, the customer is an airline company whose head office is in a foreign country. Its flying routes concentrates in the Far East region and the North America. Both the local office in Hong Kong and the head office were involved in the selling process.

The customer in the local office was first contacted four years ago with a letter stating the price of the equipment to provide the service and a draft agreement. There was no response from the customer. Two years later a revised quotation with a list of connected airlines and travel agents was sent to the customer again. Two months later the salesperson managed to contact the Communication Manager of the Hong Kong office whose reply was that there had been no decision from the head office and the proposal was under study.

The salesperson then started to contact the head office staff in writing, the Deputy General Manager of Information Systems and invite him to come to Hong Kong to see a demonstration. It was also stated that it would take about six months to design, install and test the interface connection between airline computer and TAREX system.

Six months later, the salesperson wrote a letter to the local office pointing out the benefits that the system could bring to the airline industry. The market profile and customer profile were also mentioned in the letter. Two months later, the salesperson contacted another local staff, Communication Manager-Southeast Asia, and

proposed a 24- instalment arrangement to overcome customer's cashflow problem. The customer was invited to see a demonstration and on that occasion the salesperson succeeded in locating the influencer of the buying process, the Reservation Manager.

It was noted that one of the main reasons why the customer was hesitant about the service was that they use to sell seats on a group basis. Therefore it seemed that there was not very many chances for the travel agents to book seats for the individuals. The salesperson tried to convince the customer by quoting the general practice in other airline companies and stating the potential revenues from individual travellers.

After detailed discussion on several points the Reservation Manager agreed that TAREX was a suitable system for their company. He began to prepare a proposal to the head office with the assistance of the salesperson stating all the cost-benefits and justifications. Eventually the head office approved the plan to use the service.

Comments

- (1) It was noted the salesperson did not take an active role in the selling process. He should have in the first place visited the customer and understand their requirements and problems instead of writing to the customer.
- (2) At first he only emphasised on the quotation of the equipment required and the service charge without selling the benefits of the system.
- (3) The salesperson failed or did not tried to identify the influencer and decision maker of the buying process.
- (4) Since the final decision was taken by the head office, it might be worthwhile to sell the service to the head office staff who

obviously had an influence on the local Hong Kong office.

- (5) However, seeing that there was a potential cashflow problem in the local office, the salesperson was flexible and innovative enough to propose an instalment payment method.

The two cases above demonstrate the whole approach to selling, and the complexity of decision making. In the second case, we saw a hint on the overemphasis on price in the fact that quotation was enclosed even if the salesman did not know the customer requirement. We now turn to a case of personal selling, we would see that most sales presentations starts with price discussion leading to fruitless results. The purchasers take full advantage of this situation and screw down to the last cent that the seller can sacrifice.

Case Three

In this case, the product involved was a display device to be used in semi-professional electrical instruments. There were three companies making the same product. The customer in this case was one of the less competitive one, because they had been using low-price and low-quality material in their product and therefore could not reach the higher end of the market.

The seller have been already selling for quite some years and occupies the larger share (60%) in the market. Several contacts had been made before by a different salesman who had left the company. The new salesman decided to try again selling to this customer. Previous attempts were rejected because the price was higher than the suppliers who were then supplying to this customer.

The following is the record of the sales presentation :

The visit was made to the purchaser of the customer.

S : We are here to introduce our display products for electrical instruments. We have good quality and we are already selling to your competitors. Can you tell us what part number you are using and the quantities.

B : We have already two suppliers now.

S : But maybe we can offer you a competitive price.

B : What price do you offer ?

S : What is your order quantity ?

B : It depends on our order situation, but on the average about five thousand per month.

S : (looked at his price list)

For this small quantity, I offer you a specially low price because I want to get your order. The price is \$ 1.10.

B : But we are currently buying at \$0.85.

S : Do you mean that at this low quantity, you can get this price.

B : I can show you me invoices.

S : It is not necessary. But I wish to express that we have a better quality. Perhaps this helps to improve your production. I learnt that our competitor have some quality problems.

B : Yes, but we feel that the quality is sufficient for us.

S : Are they reliable on delivery ?

B : No problem at all, they are all local companies. I know them very well.

S : So, the only problem is now the price.

B : Yes, what can you do about that.

S : I have to check with my superior. But I have brought some samples along. Can you try them first. I will get back to you next week.

Comments

The salesman was definitely not well prepared in this case. If he had done his homework well then he should know already that his price was higher than the present suppliers of the customer and he would not have started right away with price.

Another obvious mistake was that he started with the price and not the quality or possible savings in production costs, or improvement in sales in the customer will just spend 25 cents more on one component of his product.

Although he mentioned about other factors such as quality, delivery, etc., his lack of preparation did not allow him to go so far in offering other possibilities.

The purchaser was contacted in this case. It is doubtful whether he has talked to the right person. If he had tried first with the

marketers of the customer and tell him that his purchasing and engineering colleagues had been using a bad quality product which affects his sales, and convinced him that spending only 25 cents more for a component will bring him much more sales, then the visit should have gone much more smoothly. In that way, he will be leading the discussion instead of being turned down.

Over-emphasis on price and lacking careful preparation are the common mistakes of most salespeople. Many salespeople will just pick up any item during the customer visit and thought that by his experience, he would be able to sell to the customer. Let's look if he was successful in the next case.

Case Four

In this case, we try to distinguish a good sales presentation with proper planning beforehand and adequate knowledge about his product lines and the possibilities with an unprepared presentation where the salesperson was just refused.

In the first part of this case, the customer was a local electronic company making professional telephone sets, including exchanges and PABX. The customer called the salesman of a large multi-national company who supplied lots of electronic components worldwide to look for a special component. Due to his lack of knowledge, the salesman brought along the specialist of the product. After half an hour, the discussion of technical problems were finished. This conversion followed.

S : By the way, you know that we are a large company I think that I can offer you also some other products besides this.

B : Sure, I am glad to listen to what you can offer.

S : Yes, I handle a large product range. Resistors, diodes, transistors, capacitors, etc., etc., more than anything that you can think of. What do you want to buy ?

B : As you said, I use a lot of components.

S : But you have to tell me what exactly you want, or how can I offer you anything.

B : (Jeered) I am waiting for you to sell me something.

S : I handled so many products that I do not know what I should offer.

Could you please tell me what you are looking for ?

B : OK. In that case, let's start with resistors. What is your price ?

S : Our price is such and such.

B : It is quite high.

S : Yes, and so said other buyers, that is why I am not too keen in selling resistors to you.

B : What else do you offer then ?

S : Let us do it this way. You give me one of your product and I will go back to ask my engineers to tell me what I can offer you.

B : This is impossible because our telephone exchange is too big. And besides there are confidential things which we do not want to let others know.

S : Please be more co-operative, otherwise I cannot offer anything to you.

B : I did not ask to be offered anything. You want to sell something to me. Sorry, you have wasted enough of my time. Come next time only when you have prepared to give me a real good offer.

The salesman was shown the door of the meeting room.

In the second case, the customer is a camera manufacturer. Since more and more new cameras are using electronic circuitry, the salesman was contacted to supply a special display for a new camera involving micro-computer controller. Since the discussion involves technical things, the buyer-side includes an engineering manager and the purchaser. This conversation below also occurred after the technical discussion was over.

S : Now we have discussed the display, I still have other things to show you. (He handed over a catalog.) This is a CCD Image intensifier.

B : Yes, I heard about that name, but you see, we were specialised in optical things and not very good at electronics, can you go ahead and explain what that is.

S : OK. To put this in a simple term, you do manufacture Video cameras, do you ?

B : Yes, we do.

S : You see in dark environment, normally the picture quality is not very good.

B : Yes, our customers were always complaining about that.

S : With this image intensifier, you can have good picture even with candle-light.

B : Fantastic, but what does that mean to the design. Do I have to use a complicated circuitry and a lot of electronic components. That means I have to hire some electronic engineers.

S : No. You do need some components, but our engineers can help you with the circuitry design. Besides, the image intensifier has been designed to be easily used by any designer. You can just place it in the normal camera and the image can be amplified.

B : That sure looks interesting.

S : Yes, that is why you see that in the new video-camera models in Japan, they have all used this intensifier.

B : I read about that for quite some time. But because of my lack of knowledge in this field. It is up to now that I understand it a little more. But I still have a problem. What is the price.

S : When you add something to your product, it will definitely increase the cost. But you have to know that it is a market trend and besides, if do not investigate this now, you will soon be falling behind in technology. Anyway the new product will also be sold at a much higher price, and you will bring in more profit to your company.

B : You have convinced me, but I really have to know the price before making a decision.

S : I have here a study of the total cost you have to add on top of the normal camera. Besides, we can also offer a kit set to you so that you do not have to worry about the design.

B : Fair enough, but I have to show my managing director before I have the necessary fund to start this project.

S : No worry. Can you make an arrangement for me to discuss this with him. By the way, if you like to look at the demonstration, we have it already set up in the laboratory. Can you come along now.

B : Sure, let me settle down a few things quickly and we can go.

Comments

Clearly, the first case is a failure. The salesman is clearly not prepared. He had no knowledge at all what to sell and what would bring up the interest of the buyer. After the technical discussion, his sales-instinct told him to try some other products and he thought that he could manage it. So he asked the customer. The customer was surely an experienced one as he started by picking up something which he knew was difficult for the salesman. And the salesman was embarrassed on the spot. It would also jeopardize his sales in the other component before he opened this discussion.

However, the other case was completely different. The salesman was well-prepared, he even had the set up ready in the laboratory so that he could bring in the customer after the visit. He prepared the whole cost calculation so that he would not be afraid to talk about the price. Notice also how he used other factors like technology, easiness of using the product, technical assistance and so many things. He also appealed to the customer by showing him the possibility of to support him with more technical information, more profits that the engineering manager and buyer could bring to the

company. He also identified that if the technical manager had seen the real demonstration, he could write a better proposal to his boss so that the chance of selling the product would be much higher. He also anticipated that to make the decision, development fund was a crucial factor, and he volunteered to visit the boss to explain to him. This was a really good sales presentation.

Most industrial sales calls are non-innovative and involves only discussion about price and delivery. Salespeople often fail to recognize other variables that can be manipulated. In the next case, we could see how he messed up a well-planned presentation.

Case Five

The case started with the salesman consulting the manager of the display section of a multi-product company selling electronic components about a quotation for a customized display for a low cost clock device.

Salesman : Please quote immediately the price of this display. The customer needs it now. Make haste. And also he would like to know if you can recommend any suggestion on a low-cost circuitry.

Manager : Very well, how competent is the customer in designing electronic circuitry.

S : Of course he is not too well, otherwise he would not have asked you.

M : Is he prepared to make a micro-computer controlled device ?

S : (Already losing his patience) In that case, I would not have asked you.

M : OK, this is what you can tell him. He can use a simple Integrated Circuit for normal watch application. Since there is now an over-supply, the cost will be very low. The additional function can be accomplished by addition of this small circuitry. If he needs further assistance, I can send my engineer to help him. We will offer the whole package of components together with the technical assistance.

However, it would not be too expensive as all the components used are standard ones available from all competitors. I can quote you the price of the display. But for the other components, we will have to go to the manager of the other components.

S : Why are you giving this speech, all I needed is a quotation.

M : Don't you see that this is a package deal and by combining everything, the customer actually save on the cost of design and the cost of preparation of order and administration. On the other hand, we can also benefit by offering a higher price.

After some discussion with the other section manager, the package was completed. Then the salesman phoned the customer.

S : Hello John, I have the answers to all your questions. The price of the display is \$..... Concerning the circuitry you asked, our engineer in the display section said that you can use a simple watch circuit with the addition of a few components. All those are standard components that can be bought in the market from any supplier. I got his circuit and I will give it to you free of charge. Ha, Ha!

M : What was that you were trying to do just now ? You messed up the whole approach to the customer. Don't you see that the whole case is an integrated one, and that only in this way can both the customer and us benefit ?

S : No, I cannot see that and I do not believe in what you call package deals. This customer is a good friend of mine and I do not want to jeopardize our relationship by cheating him. Moreover, when I added up all the quotes you gave me, it was definitely higher than what the competitors offered.

M : What about the cost of design and order preparation and administration.

S : That is not my business. And I cannot see that is a substantial burden to the customer. Anyway, the customer is used to buying lots of things from different sources.

M : Have you asked the customer about this ?

S : It is not necessary, I know it already from experience.

M : Why don't you give it a try and did as I told you to.

S : This is my customer. You only worry about your quotation and not my customer. If you keep on giving non-competitive prices, I will have to report to management about this.

The result, as expected -- he lost his order due to non-competitive price.

Comments

This case elaborates the general bad habits of the salesman. His perspective is so narrow, he can only see prices. This salesman comes from a technical background and has been in sales for two years. He was always proud about his good friendship to his customers. He claimed that he never cheated his customer and that was the reason why he was so successful in his job.

Is he successful ? Perhaps he can reach his target sales. But surely he is not at all concerned about the profit of the company. Are his customers benefiting from what he called honesty ? The calculation by the manager clearly showed the opposite. What can be done to change the attitudes of this kinds of salespeople ?

Summary

We can have more case presentations, but the above already suffice to illustrate what we found out in Chapter IV which are presented below :

- Complexity of buying behavior;
- Involvement of more than one decision maker;

- Importance of talking to the right person for the sales call;
- Generally lacking of preparation before sales calls;
- Over-emphasis on price
- Failing to using other variables in a sales.

Embarrassment is only a minor punishment for these kind of salespeople. Bad relation with the customer and loss of confidence resulting in loss of order are more damaging to the company.

We now turn to the buyers where we looked at how they commented on their own job and the salespeople.

Chapter VI

RESULTS OF INTERVIEWS WITH BUYERS

One of the definitive objective of interviewing buyers was to verify the results obtained in the interview with the salespeople. However, since we have stated many times the complexity of buying situation, we will present the interview results in a wider perspective.

Four buyers were interviewed including those from large multi-international companies and small local firms. Since the buying process also involves other people in the organisation, especially for the selling of industrial services, which is very often directed to the user, two users were also interviewed. The results can be summarized into the points below.

Types of Products and Services

In a firm, there are many types of products and services to be purchased. In the case of a manufacturing company, the main items of purchase are the raw materials and components necessary for the manufacturing of the firm's product. In a trading company, the goods purchased to be exported or sold to retailers is the major task for the purchaser. The mainstream purchase is characterized by their large quantities and the regular purchase. In a firm, the buying decision for these kinds of products / services are well-defined and organized. But, to run a firm, other types of products, e.g. sundries, machines

or capital goods, furniture, utilities, or various types of services are also needed. The decision process and the decision makers differ from case to case and are difficult to be identified.

In general, therefore, the decision process for industrial selling is complex in the sense that more than one decision maker is involved and it is dependent on the type of product or services.

Types of Purchase

To add to the complexity of the buying process, the type of purchases is another important factor. In the case of a straight rebuy, i.e., the buyer just purchases exactly the same product which he has done before. This is often simple and the least number of people are involved. Usually the decision is made by the purchaser himself.

But if there are changes in the purchase as compared with the previous one, the decision may involve the user of the product/service. Sometimes it may also involve the specialists, designers, quality control people.

If the product is a new one, and has never been purchased before, then a lot of people are involved. The time required for making the decision is also longer. And the salesperson has to spend more effort in explaining to the product/service to a number of parties. In the case which the new purchase either involves a large sum of money or is a future strategic product of the company, people like marketers, senior management... etc. are often involved.

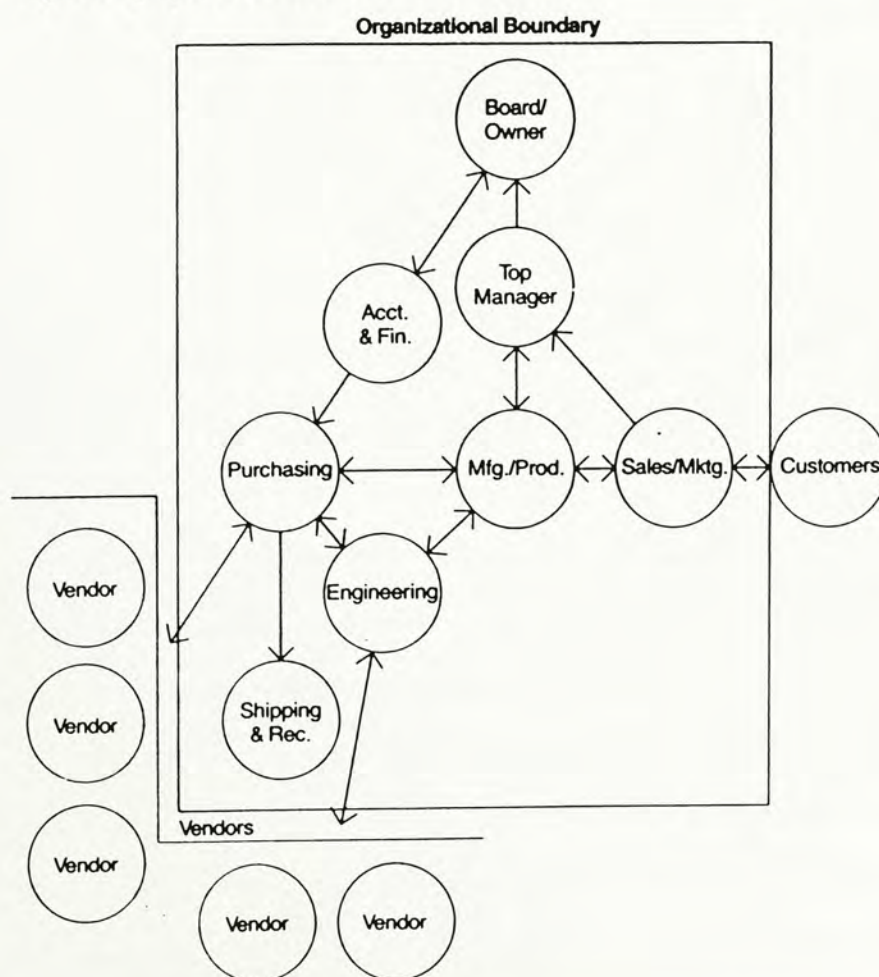
Size and Organization of the Company

The size and organization of the company also have significant influence on the buying process. Actually, different companies has

different policies. Most of the manufacturing companies in Hong Kong are small and the ultimate decision maker is always the owner of the company no matter what his title is called. Some of these companies have only one or two overseas clients and very often, they have to consult their clients before decision is made.

Many companies in Hong Kong are multi-national and have their head-office or regional headquarter outside Hong Kong. In purchases involving large amount of capital, it is very often necessary to consult those mother-companies or regional headquarters before a final decision is reached. Figure 6.1 shows a typical buying centre for capital equipments.

Figure 6.1 The Probable Buying Center for Capital-Equipment Purchases



Decision Making Process

As mentioned before, the decision making process for the mainstream purchases are often well defined. The following steps can be identified.

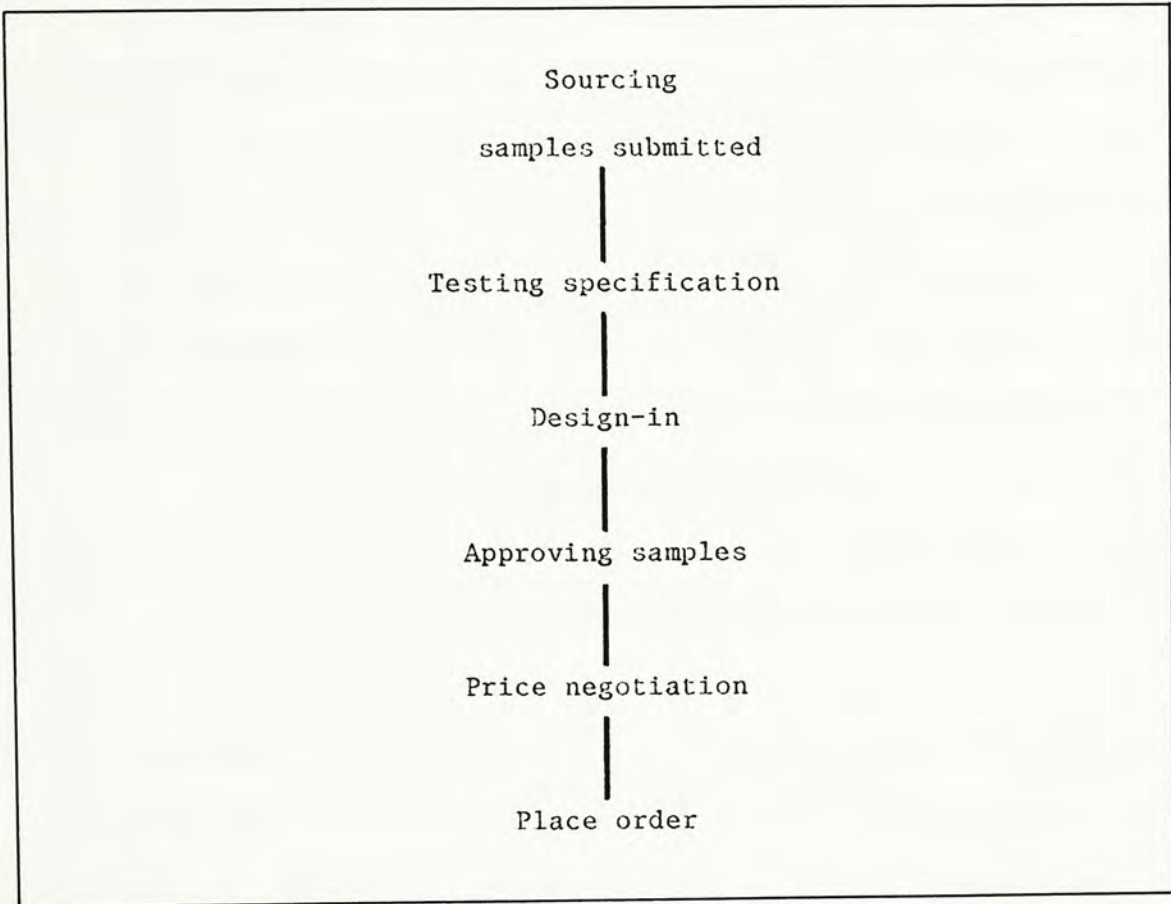


Fig. 6.2 Typical steps in a purchase

The decision process for other products involves different parties but follows basically similar pattern. It is therefore possible to identify three types of people in the decision making process, namely, the purchaser, the specialist and the user.

Besides the people directly involved in the decision process, there are also a number of influencers. And they are different from case to case. Although they do not make the decision themselves, they

have influence over the decision. People like quality control, marketing, administration, financial controller, etc. falls into this category.

Buyer's Concerns and Objectives

All interviewed purchasers are concerned about price as their main task is to negotiate the lowest price. A good purchaser is judged by the fact that he has extensive knowledge about the current price of large number of products and he is able to get the lowest price. Besides, he is also interested in the delivery as he belongs to the material management department whose objective is to supply material on time so that production will not be disturbed. Therefore they do not often pay too much attention to purchases beyond the mainstream. Some large companies usually have a separate group of people taking care of buying other things. Other companies will depend on the user himself to buy whatever he wants.

Some purchaser mentioned about service which can mean quite different things. An interviewed buyer regarded service as the follow up work of the salesperson after the order had been placed. Another referred to the acceptance of the salesperson if he wanted to suddenly increase or decrease the quantities. Quality is of concern, but most buyer will not be able to identify the quality of the sellers. Therefore they leave the job to the specialist and the user. But buyers will surely accept their comments on quality as reference for the next purchase. Some purchasers are also influenced by the reputation of the seller which can give him confidence in the purchase.

The specialist's job is to evaluate quality and design-in of the product. Being a technical man himself, he is interested in the

technology with which the product is made. Understanding the technology will give him confidence to design the product. He is not too keen on the lowest price, but would balance the quality and the price and looks for cost-efficiency.

The user is often represented by the specialist. But if not, his interest is in whether the product/service fits his usage requirements. For example, the user is often the decision maker for the office equipment like photocopiers. He is also concerned whether the product is easy to handle and easy to learn as he does not want to lower his efficiency or get into trouble by not knowing how to handle the product. Sometimes, personal concern comes into play in such decision making process.

Comments of Sales Techniques and Dissatisfactions

Buyers showed the enthusiasm and appreciated the co-operativeness of the salespeople. But in general, their comments were that there was room for improvement.

The salespeople in general do not take the initiative. Some worse ones are only "message takers" in the sense that they never positively sell anything, but copy down what the buyers want to buy and get back to check whether they have enough stock or not. On technical questions, he is never able to answer, or gives answer which he does not understand what he is talking about. But the average salespeople are weak in actively, positively anticipating the demand and finding opportunities to sell more.

Another weak point about the salespeople is in "design-in". One reason is that this often takes a lot of time before they get the order. And the salespeople who earn their living on commissions of their sales find it difficult to follow through the whole projects. So

most salespeople are short-term oriented and would prefer to sell products which are already used by the customers.

Some buyers commented that salespeople often make promises which could never be fulfilled. This gives a generally poor impression that whatever the salespeople said is 30% believable.

Some salespeople are too protective about his company and never reflect the customer needs to their company. In the case of franchised or government services, bureaucracy comes into play. One interviewed user quoted a case where there was some faults in the service provided by a franchised company. The attitude of the salesperson was not very helpful, just insisting on saying that it was the fault of the customer equipment without giving a helping hand to solve the problem. The salesperson did not even show any concern to the inconvenience caused to the customer.

Summary

The results pointed out the influential factors in a buying decision process:

- Type of products and services,
- Nature of purchase,
- Size and organisation of the company.

Other environmental factors such as company policies, economical conditions and technology are also important.

The decision making process is also a rational one involving predefined steps. Another characteristic is the involvement of more than one decision maker. However, it is further complicated by the objectives and concern of the decision makers.

In general, the comments on the salespeople are not high. The professional salespeople should be one who is helping the buyers to

solve problems. Instead, the image of salespeople is just to sell their product/services or a representative of the supplying company.

CHAPTER VII

ANALYSIS AND CONCLUSIONS

Having looked at the two sides of the buying process, i.e. the sales side and the buyer's side. We will attempt to analyse the findings leading to some discussions, suggestions and recommendations in the next chapter.

Buyer Behaviour

To summarise the buying behaviour, it is obvious that the concepts in textbooks or published papers about models of buying behaviour hold without exception also in Hong Kong. To distinguish from consumer buying behaviour which involves one-to-one selling psychological and emotional buyer behaviour, the industrial buying behaviour is characterized by:

- Complexity of the decision making process,
- Involvement of more than one decision maker,
- Decision makers have different objectives and needs to be satisfied,
- Rational but also with some emotional factors.

The following variables can also be identified as directly influencing the buying behaviour. Although a numerical model cannot be drawn out.

- (a) Type of product/service,
- (b) Type of purchase,
- (c) Value of purchase,
- (d) Objective for decision makers,
- (e) Organization of the customer's company,
- (f) Competitors.

To be successful in a sales event, a salesperson needs to identify all the above parameters and tackle the situation from all the perspectives. Furthermore, these factors are also interrelated and affect one another. Let us now further elaborate on these factors:

Type of Product/Service

A typical firm must purchase a wide variety of products and services, e.g. raw material or components for manufacturing, services for individual departments, machines or capital goods, utilities, etc.. Different type of products will have different buying behaviour and involves different decision maker in different organization levels. The market situation of various products and services comes into play during the negotiation which also affects the decision; process.

Type of Purchase

Going along with the type of product is the type of purchase. In general it can be divided into new purchase, modified purchase and rebuys.

Straight rebuys are simplest to handle and require minimum number of decision makers. In general, the purchaser himself can make decision. In this case competition is the strongest in price and delivery.

Modified rebuys are more complex as they involve more decision makers. And the more the modification, the more decision makers will be involved. This also points at another important aspect of "design-in". That is the first one who gets into the company setting up certain parameters and boundaries according to the limitations of his own product or services which other competitors find it difficult to win because of the complications in the decision making process.

New purchases are the most complicated and involve perhaps people higher up in the organization structure such as engineering managers, purchasing managers, marketers, general managers, financial controllers, or even the CEO.

Value of Purchase

The purchasers are only handling orders of relatively small values and very often if the order value is big, he will have to consult his superior. That means the salesperson has to get through two people in order to get the sales done. Take for example, the department manager can make the decision to buy a HK\$3,000 typewriter without problem. Some purchasers can make that decision too. But for a copying machine of the magnitude of HK\$20,000, the purchasing manager cannot make that decision but has to consult the financial controller. If the purchase is a mini-computer, then very often the senior managers or sometimes the CEO have to be involved although they may not know or never touch the computer themselves.

Organization of the Customer's Company

It is a very important factor and is causing the most problem to the salespeople. In Chapter V we have shown a few cases where sales efforts were wasted due to approaching the wrong person.

Multi-national companies in Hong Kong have their headquarters in different countries of the world: the United States, Japan, the United Kingdom, Germany...etc, and they all have different organizations, decision making patterns, and sometimes job titles. It is therefore important for a salesperson to understand the customer clearly before devoting the effort to the purchaser only.

The influence of regional headquarter and the headquarter is often overlooked by the salespeople. Indeed contacting them is more expensive. However, in most cases, we found that it is sometimes necessary to make international phone calls or visit the overseas customer offices to meet the right people. The salespeople should not try to save money and lose the order. Apparently most salespeople in Hong Kong are unwilling to propose these to their superiors.

In the large companies, the decision making process often involves three types of people, the purchaser, the user and the specialist. In some cases, the specialist represents the user, simplifying the decision making process. A typical example is the purchase of component in a company, the purchaser is easy to be identified. The specialist is the design engineer and the user is the production department who is often represented by the design engineer also. Besides these people, depending on case to case the influencers do play an important role in affecting the decision. The trend in some companies is to assign specialist as project managers who make the final decision.

In small companies in Hong Kong, very often the owner is the final decision maker and talking to him alone is sufficient.

Objectives of Decision Makers

Let us now consider the objectives and interest of the purchasers, the specialists and the users.

For the user who deals with the product every day he is interested in whether it is easy to use, efficient and will not cause him any trouble. He is not interested in the price. He understands little about technology but is surely interested in a smooth delivery schedule as it affects his performance.

The specialist is a technical person. In knowing the technology behind the product/service, he feels confident about the quality which he is responsible for if he accepts the product. Delivery is not his concern. He does not look for the lowest price and is willing to trade off with other things like quality and technology. His concern is about cost-effectiveness.

The purchaser's main job is to negotiate the lowest price and maintain prompt delivery. He does not care about technology. If he finds a cheaper substitute, he will press the specialist to evaluate it. Even if the product may not be suitable for the application, he will request the specialist to make some changes in the specification to allow him to get a lower price.

Fig. 7.1 INTERESTS OF DIFFERENT DECISION MAKERS

	PURCHASER	SPECIALIST	USER
PRICE	*****	***	*
QUALITY	***	*****	***
DELIVERY	*****	***	*****
TECHNOLOGY	*	*****	***
EASY TO USE	*	***	*****
REPUTATION	***	***	*

Competitors

Perfect competition, oligopoly, monopolistic and monopoly all exist in industry. It is difficult for a salesperson to update himself with full information. In general, only two to four competitors are fighting for the particular order. Thus as a salesperson, to find out what the competitor is doing is important and crucial.

In our study, we found that most salespeople were not pressing enough about this. They focussed their attention too much on price resulting in price war almost in every case. Some salespeople admitted that they would not "sell" to the customer but left the decision to him. We could not agree to this attitude.

Salesperson Behaviour

Having analysed the buying behavior, we now turn our attention to the salespeople to discuss the following points.

- (a) Over-emphasis on price,
- (b) Catalog sales VS design-in,
- (c) Ability to manipulate other factors in a sales situation,
- (d) Talking to the right people in the customer's company,
- (e) Ability to handle complex situation,
- (f) Short-term oriented,
- (g) Reaction towards resistance,
- (h) Comment on "customer relation".

Over Emphasis on Price

One day, one of the authors had a chat with a salesman of a large Japanese electronic component manufacturer. He explained to him that his sales was in danger because his price was not competitive any more because the Koreans were offering crazy low prices. Most sales talks focussed on prices, and the only decision criteria is price. Is there really nothing else besides price ?

The answer can be related to whom the salesperson is directing his sales presentation. Traditionally, the salespeople talks with the purchasers, and naturally price is the most important topic. However, we have seen that other people in the decision making process have other concerns, like technology, delivery, quality, etc.

Catalog Sales and Design-in

From our case presentations, we have seen that some salespeople can only handle catalog sales. They visit their customers, copy down the type number of the products required by the customer and check if they have enough stock. If so, they quote the price and hope to close the sales. If the price is too high, then they check if the price can be lowered, and that is all they will normally do.

However, a more professional salesperson would have prepared himself before the visit. He would have already talked to the customer on the phone and had a general picture of the customer needs. He would have gathered enough background about the customer. With these, he planned what he would be going to sell and came up with a few alternatives which satisfied the customer and was beneficial to his company. He would also have prepared to

answer some easy technical questions. Or if he felt in-depth technical discussion would be involved, he would ask the engineers to go along with him. All these would have created a positive image to the customer. We will further discuss the preparation in the coming section.

Ability to Manipulate Other Factors in a Sales Situation

In industrial selling, the factors to be manipulated is even more than in the case of commercial selling, such as, technology, quality, delivery, payment terms, logistics, packaging, shipment methods, package deals, leverages, price...etc. Most salespeople had not tried their efforts in considering these factors before they lowered the price. This also shows the importance of preparation before a sales visit as one will have no time to think about these once one is sitting with the customer.

Talking to the Right People

We have revealed the complexity of the buying decision process and the many people being involved in industrial sales. Sometimes it is not so simple as to talk to one purchaser alone without "selling" to other decision makers. Depending on the type of product, type of purchase... etc., different people have to be contacted. Therefore it can be said that industrial sales is more difficult than consumer product sales.

Ability to Handle Complex Buying Situation and Short-term Orientation of Salespeople

We have shown in the cases some complex buying situations. They do not only happen in multi-national companies, but also in small companies although the degree of complexity may not be the same.

These situations, the salesperson, due to his limitations in expertise, often gives up trying and loses the order. Most salespeople are short-term oriented in that they are only interested in easy and immediate orders. A lot of complaints from the salespeople are the difficulty of selling certain kinds of products or services and that some customers are difficult to be dealt with.

Reaction to Resistance

There is in general a tendency for the salespeople to give up too easily when their offers are being rejected or when the customer gives the order to his competitor. Seldom will a salesperson try to find out why he loses the order and whether there is still any possibility to get it back.

Comment on "Customer Relationship"

Lots of emphasis from both the buyers and the salespeople on the importance of good customer relationship were heard during the investigation. But on closer examination of what is meant by good customer relationship, it is noted that it means good personal friendship. In countries like Korea or Japan, it is even said that if there is no relationship, it is impossible to approach any customer. But does that mean that if a person has no experience or

friends, he can never be a good salesperson ?

We do not want to deny the fact that good customer relationship is important. But we find that it should mean treating the customer more professionally, not just giving lip services, but really helping the customer. In this way, the customer can rely on the salespeople to solve his problems instead of just being sold products or services.

Buying Model

From the analysis of the buyers and the salespeople we now turn back to the two models mentioned in Chapter II and look at them again. We have obtained similar results by studying the real situations in Hong Kong, although some factors vary in their degree of influence.

For example, the following situations are noted in our study:

- * The complexity of the buying decision process.
- * Involvement of more than one person in the process.
- * Interaction of different interest and objectives of the people involved.
- * Conflicts of objectives among decision makers in the process.

With the analysis, we are now ready to go into some recommendations for the industrial salespeople.

CHAPTER VIII

RECOMMENDATIONS AND DISCUSSIONS

Now we come to the stage when we have looked at the situation on both the buying side and the selling side. We have said in the beginning of this study that our objective is to point out some areas for improvement of the industrial selling basing on the facts we can find in the study of industrial buying process and behaviour.

Our recommendations were divided into two major categories. Firstly we will direct our attention to the salespeople. These recommendations and discussions should be of interest to the salespeople and include the following points :

- (1) Preparation of visits,
- (2) Talking to the right person,
- (3) Careful study / continuous evaluation of customer,
- (4) Better understanding of buying behaviour and selling skills,
- (5) Knowledge of competitor, and
- (6) Customer-orientation.

Having looked at some of the complaints from the salespeople and buyers, it is obvious that some of the problems arise because of sales department organization. This cannot be tackled by the salespeople alone. Therefore, we also recommended and discussed a few points aimed at corporate level:

- (1) Sales training,
- (2) Organization of sales force,
- (3) What type of people should sell industrial products,
- (4) Remuneration schemes,
- (5) Effect of corporate culture, and
- (6) Marketing/customer orientation.

To start with let us look at the suggestion to the salespeople.

Recommendations on Salespeople Level

Preparation of Visits

In our study, we have seen how poor the preparation of customer visits were. Some even did not prepare themselves before going to a customer visit and we have seen how embarrassed they were on the spot.

In fact, with the complicated task of the buyers and the more and more work load of the salespeople, they cannot afford to waste time in unprofessional discussions like that. Moreover, the salespeople can benefit from well prepared visits as they will no longer be put into difficult situations and can get more sales. A well-documented sales preparation can be a useful training tool for new salespeople.

With all these benefits in mind, it is strongly recommended that salespeople prepare themselves before the visits to the customer.

Talking to the Right Person

We again emphasize on the fact that the industrial buying process is a complicated process and more than one decision maker are involved. Depending on factors such as types of products/services, type of purchase, value of purchase, the phase of the project, ...etc., the salespeople will have to use their judgement to decide to whom they should contact and the likely concern of the decision makers. Then he can give the right input to the right person and stop calling the purchaser or engineer right away and discuss only price.

The diagram on the next page is a comprehensive guide to the various stages of a typical project and the degree of influence of the different types of people in an organization.

Careful Study / Continuous Evaluation of Customer

In the interviews, we found that a minority of salespeople did keep record of the customers but most of the rest only relied on their memory about the customers.

In a book called "In Search Of Excellence", the authors expressed that one of key issues of an excellent company is the closeness to the customer. Translated into industrial selling, the salespeople should really reconsider how close to the customers they really are. Other important considerations are customer characteristics, customer interests and things to be avoided. Equally important is the acquaintance of the buyers and showing concern for their social groups e.g. family, colleagues. This will be further discussed in the section of good customer relationship.

Not only must a customer be studied carefully, but also the information must be updated as changes often occur. For example,

THE ROLE OF DECISION MAKING UNIT
IN THE PRODUCT PLANNING PROCESS








Product - Planning process		Phase1 IDEA	→ Phase 2 GO/NO GO	→ Phase 3 SEARCHING & 'SHOPPING'	→ Phase 4 ORDER
MEMBERS OF D.M.U.					
Chairman		●	●	●	●
General Manager		●	●	●	●
Finance Director		●	●	●	●
Purchaser			●	●	●
Department Heads		●	●	●	●
Application Specialists		●		●	
End users		●		●	

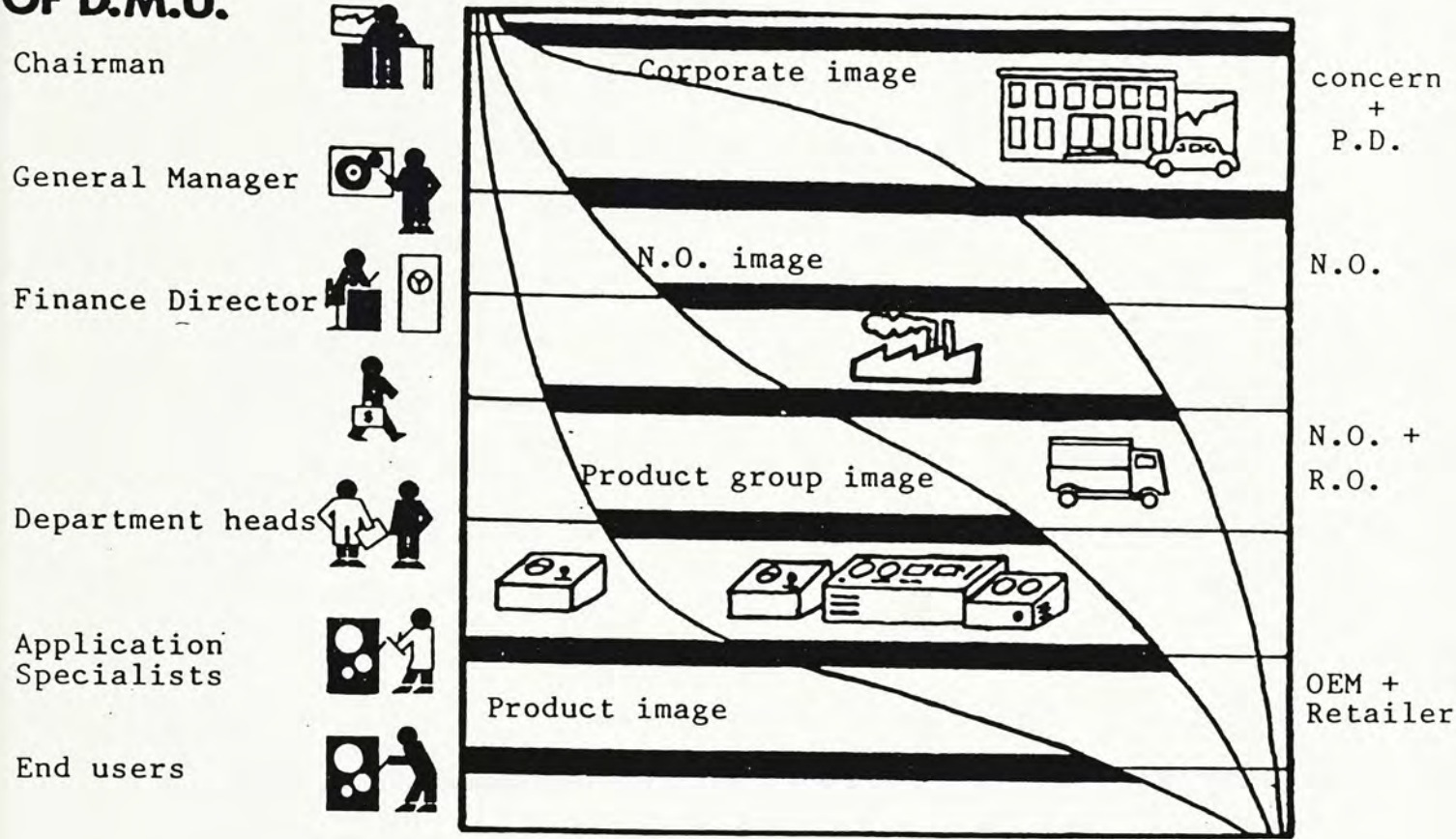
Fig. 8.1 The Roles of Decision Making Unit in the Product Planning Process

Where ?

What ?

Who ?

**MEMBERS
OF D.M.U.**



Information Sources

1. Salesmen
2. Exhibition and Trade Shows
3. Direct Mail (product catalogues)
4. Press Releases
5. Journal Advertising
6. Seminars
7. Word of Mouth
8. Quotations

Fig. 8.2 Sales Promotion

people, organization, etc. may change and the customer data file has to be updated constantly.

Better Understanding of Buying Behaviour and Selling Skills

It was shown in this study also that the salespeople took for granted that they understood the customers and their buying behaviour very well. But it was found that this was in fact not true.

Better understanding of the buying behaviour leads to the willingness of being trained in new concept in selling and not heavily relying only on past experience. When we talk about training, most salespeople will think about training in technical knowledge or new products. But it is time that they also have training in marketing, selling technique...etc.

Knowledge about Competitors

Equally important as the knowledge about the customers, the knowledge about the competitors will help selling. Normally competitor evaluation is the job of marketing department in a company. There should be plenty of records and intelligence which can be readily available. Since in most companies, both the marketing and the sales group belong to the same organization function, access to such intelligence should not be too difficult.

On the other hand, every now and then the salespeople are being confronted by competitors and they should have been updated with information, strategies, and other information about competitors. They should also feedback the information to the competitor database for future reference. Salespeople usually take on a very negative attitude when they lost the order to the competitor. What one should do is to

analyse why one loses this time so that one can have a better chance to win the next time.

Customer-Orientation

An effective salesperson should be customer-oriented. Customer is the wealth of a salesperson. Without customers he could not sell. It is amazing how many salespeople said that they were customer-oriented but when they were sitting with the customer they so easily fell into the trap of thinking only on the side of his own company.

A truly customer-oriented salesperson maintains good relationship with the customers and is eager to solve their problems by offering company's products/services. He reflects the customer needs to his superiors and colleagues with the aim to satisfy the customers.

Customer Relationship

We have been using the term customer relationship throughout this study. To a salesperson, this means that he establishes personal acquaintance with the customer's buyer. But we think that this should mean more than that. In the last paragraph, we discussed the truly customer-oriented salesperson. A little while ago, we talked about closeness to customer. With these two considerations, the industrial salespeople can now claim to have genuine good customer relationship.

Recommendations at Corporate Level

At the corporate level, it is not as easy to give clear suggestions as in the case of salespeople level. However, we will discuss some points based on the buying behaviour and hope to give some insights to how sales force can be organized to better serve the customer and therefore get more orders.

Sales Training

There are some companies which organizes internal sales training programme. We found that more and more companies organize annual sales conferences with some training in the conferences from which the salespeople can be benefited. However, training is not often well accepted by salespeople. In some cases, salespeople consider sales training as useless because they have already got a lot of experience in selling. This attitude should be changed. But it should be started from the top level downwards so that everyone should improve their quality in selling.

Organization of Sales Force

Throughout the study, we have commented about organization of sales forces. The two common ways of organization are by customer account or by product. But we have seen that both have advantages and disadvantages. If the sales forces is organized by customer accounts, the advantage is that the salespeople can understand the complete requirement of the customers, but on the other hand they cannot have extensive product knowledge. Conversely, if the sales force is organized per product, the salespeople have better product knowledge, but he fails to understand the customer's total needs and often more than one salesperson is required to call the same customer.

In some companies, the sales organization is mixed. Basically the organization is per product so as to provide extensive technical support. But for major customers, dedicated salesmen are assigned to handle individual accounts. And they are backed up by a lot of technical specialists back in the company. Many Japanese firms have such an organization.

What Type of People Should be Hired to Sell Industrial Products

This is a common question asked by a lot of sales managers. Traditionally, because of the technical requirement of industrial products, salespeople with technical knowledge are hired. But it is difficult to find the same people possessing good selling techniques because engineers have had a different training. To find people with good selling and marketing background such as consumer product salespeople, the problem is that another technical man has to be hired to support with technical knowledge. This is rather inefficient. Training seems to be the only solution. But a lot of obstacles have to be overcome before the sales force can fully take off.

The conclusion is therefore that emphasis should not be laid on what type of people should be hired for industrial selling. Their willingness to learn and improve themselves in the profession are of utmost importance.

Remuneration Schemes

To stimulate more sales, some companies give commissions to the salespeople basing on a fixed percentage of the sales turnover. By doing so the negative effect is that the salespeople will be short-term oriented. They only follow cases which will lead to big turnover and want to close the sales as soon as possible. That also accounts for why they emphasize so much on price because if the price is low, it is not worthwhile to make too much effort.

However, if the salary is fixed, most salespeople admit that there is no incentive to sell more.

Again, there is no definite answer. A possible solution may be to set up sales targets per customer account or per product, which is sometimes called volume activity budgets. Failing to meet targets will affect the appraisal and in turn the salary increments.

Effect of Corporate Culture

We have discovered during our study that the corporate culture has a great influence on salespeople. If the salespeople is proud of this company, believe in the product, he will be dedicated to sell more. In this aspect, management should find the appropriate motivator to motivate the salespeople.

During an interview with a buyer, we heard that all IBM salespeople were moulded in the same type. They spoke almost the same language and they used similar selling approaches. It seems that IBM has certain way of training the salespeople. This reflects the fact that the corporate culture have a lot of influence on the salespeople.

Marketing/Customer Orientation

We would like to finish our recommendations and the study by emphasising the importance of marketing orientation. Up to now, most companies in Hong Kong are product oriented. The salespeople have to sell whatever the production people can produce or what services the company currently offers. We have seen that in the United States, Japan, and some European countries, the successful companies always have a strong emphasis on the customers and marketing. The marketers anticipate the demand in the market. The sales force brings in requirements of the customer. The whole company get together to satisfy the market needs, and thus increasing the profit of the company.

In Hong Kong, staff members in many companies still think that they have no relation with the customers. The customer is only the concern of the salespeople. It is high time that this misconception should be eliminated. Without customers, who will buy the goods and services, how the company get enough money to pay the staff, continue researches...etc.

To become a marketing oriented company, it has to be started from the top. Management can create an atmosphere of customer-orientation, with clearly defined objectives and mission for customer satisfaction. Every staff should co-operate to really work out the goals set by the management.

It is our sincere hope that by this study we have pointed out the problems existing now in the field of industrial marketing and that the results are beneficial to the salespeople in improving their skill in selling industrial products and services.

BIBLIOGRAPHY

Books

- Kotler, Philip. Marketing Management, Analysis, Planning and Control. 5th ed.
- McCarthy. Basic Marketing: A Managerial Approach. 8th ed.
- Webster, Federick E. Jr. Industrial Marketing Strategy.
- Webster, Federick E. Jr. and Wind, Yoram. Organizational Buying Behaviour. 1st ed. Englewood Cliffs, New Jersey: Prentice Hall, 1972.
- Hutt, Michael D. and Speh, Thomas W. Industrial Marketing Management - A Strategic View of Business Market.
- Reid, Allan L. Readings in Modern Applied Salesmanship. 1st ed. Santa Monica, California: Goodyear Publishing Company, Inc., 1976.
- Allen, Robert Y., Spohn, Robert F. and Wilson, I. Herbert. Selling Dynamics. 1st ed. McGraw-Hill, 1984.

Periodicals

- Webster, Federick E. Jr. and Wind, Yoram. "A General Model for Understanding Organizational Buying Behaviour." Journal of Marketing, (April 1972).
- Sheth, J. "A Model of Industrial Buyer Behaviour." Journal of Marketing, (October 1973).

Thesis

- Bryiyflf, Tellefsen. "Industrial Buyer Behaviour Theory: the Airfreight Industry." (1977)



000467634